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AT DEADLINE

Kemper funds investigated

The U.S. Attorney's office is investigating allegedly improper stock index futures trading in two mutual funds of Kemper Financial Services Inc., Chicago.

P&I's sister publication, Crain's Chicago Business, reported the investigation stems from a class-action suit filed last year against the company and Thomas A. Richards, a former Kemper portfolio manager. The suit charges Mr. Richards allocated profitable index futures trades to an employee profit-sharing plan he helped manage, and assigned unprofitable trades to the mutual funds he managed — Kemper Option Income Fund the Kemper Investment Portfolios Option Income Fund.

Attorneys for Kemper and Mr. Richards confirmed a criminal investigation is being conducted.

Fund bookkeeping faulted

A state audit criticized the Indiana Public Employees' Retirement System for sloppy bookkeeping and computer errors that resulted in miscomputation of benefits in 78% of the less than 50 benefit computations examined. Phillip Smith, executive director, said some of the problems already had been corrected.

Kidder unit quits New York

Kidder, Peabody is moving its asset consulting group to Chicago from New York, said Ted Disabato, senior vice president.

Managers, trustee chosen

Ithaca College's endowment fund hired Avatar Associates to manage a $15 million balanced account, said Carl Sgrecci, Ithaca vice president and treasurer. Fleet/Norstar Investment Advisors was terminated. The endowment also will increase its $30 million account with Sanford C. Bernstein, but Mr. Sgrecci declined to say by how much.

Oregon Public Employes Retirement System hired two alternative equity managers — the Zell/Chilmark Fund and Hancock International Private Equity Partners — for $25 million each, said Jim George, investment manager.

The pension funds of **General Public Utilities Corp.** and **BASF Corp.** and the **Idaho Public Employees Retirement System** are among the initial investors in Prudential Real Estate Investors' new closed-end fund, Strategic Performance Fund-1. The fund will invest in industrial, apartment and office properties in growth areas.

Michigan Municipal Employees Retirement System selected Wells Fargo Nikko Investment Advisors and Lombard Odier International Portfolio Management as its first international money managers.

The 15 pension plans of **Time Warner**, formed from the merger of Warner Communications and Time Inc., appointed Bankers Trust as master trustee.

London's Mayfair Building is one of several Randsworth properties now in the real estate portfolios of 13 U.S. funds.

U.S. pension funds buy London realty

By Steve Hemmerick

A dozen U.S. pension funds and an endowment have invested nearly $300 million in London property, the first significant step in global bargain hunting for real estate by domestic funds.

The investors — including the $14.3 billion American Information Technologies Corp. pension fund and the $3 billion Massachusetts Pensions Reserve Investment Management Board — bought limited partnership interests in what had been a publicly traded real estate company, Randsworth PLC.

Randsworth owns 35 properties in the West End of London, of which 70% are office and the remainder, retail.

"We bought a great location and in time that is what will pay off," said Paul F. Quirk, executive director of Massachusetts PRIM, which invested $25 million in Randsworth.

Before the Randsworth deal this year, U.S. pension funds had virtually restricted themselves to investing only in North American property, and almost all of that in the United States.

Indeed, only a smattering of pension funds have bought real estate in the London area.

Ameritech recently did a joint venture with a Dutch pension fund for a London office property. The initial cash yield on the deal will be about 6%, but the longer term return should be between 13% and 14%, said L.B. "Tom" Thompson, director of real estate investment for Ameritech.

Also, the $800 million Eastern Airlines Variable Benefit Plan for Pilots has invested "several million" more in apartments in London, according to Charles Dyer, director of the fund. He said he wishes the fund had more money to invest in London flats.

Eastern is one of only two pension funds known to have invested in Europe prior to the Randsworth deal. The other is GE Investment Corp., which has some holdings in the United Kingdom, according to Joel Wilson, vice president for real estate. GE In-

See **Randsworth** *on page 42*

SEC is quizzing consulting firms

Probe aimed at conflicts of interests

By Joel Chernoff

The Securities and Exchange Commission is probing whether investment management consultants face real or potential conflicts of interests in recommending money managers.

A six-page questionnaire sent in April by the SEC's New York office asks consultants to detail their business practices, including how managers are recommended and whether the consultant receives any cash or soft-dollar payments from the manager.

SEC officials refused to discuss the document, and would not confirm or deny if they are investigating the consulting industry.

In its cover letter, the SEC says it is "conducting an informal review of the business practices" of money managers who are recommended by consultants. But most consultants viewed the survey as an effort to get a better handle on consulting industry practices.

Consultants said they believe the SEC is trying to build up its expertise in the consulting area, and is not engaged in a wholesale investigation of the industry. The questionnaire apparently was sent only to consultants covered by the SEC's New York office, which covers New York and New Jersey.

Several consultants welcomed the SEC's probe, reflecting concerns the consulting industry is being swamped by a growing number of individuals who have conflicts of interests.

"The trustee needs to know if there is any inherent conflict," said Anthony F. Lotruglio, president of QUAN-VEST Consultants Inc., Manhasset, N.Y.

See **Consultants** *on page 45*

Explosion in ECUs

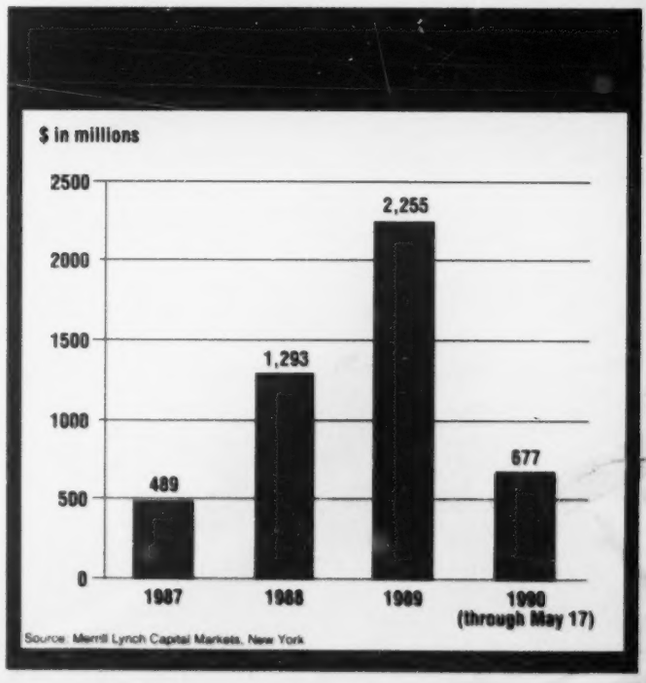
Institutions fueling the market's growth

By Marlene Givant Star

The European currency unit market is exploding for issuers and investors.

More and more U.S. and foreign corporations are issuing high-quality bonds denominated in the composite of European Community currencies, drawing institutional investors to a market historically dominated by retail buyers. Institutions are lured by the diversification inherent in the

See **ECUs** *on page 44*



NEWS DIGEST

This artist's rendering of Mission Bay shows the waterfront project being developed by Sante Fe Realty. The California Public Employees' fund will have directors on Santa Fe's board.

The California Public Employees' Retirement System will embark on a test of corporate governance in the spin-off of Santa Fe Realty. Page 36

Pension portability proposals could be thwarted by political pressure to tame the U.S. budget deficit. Page 39

SPECIAL REPORT: MUTUAL FUNDS

Limits on asset-based fees are being proposed by the National Association of Securities Dealers. Page 19

Recordkeeping capability is perhaps the most important consideration of pension fund executives when choosing which mutual fund company to use. Page 19

Banks are becoming big players in the mutual fund industry. Page 19

FINANCING

The European currency unit market is becoming a booming area for both issuers and investors. Page 1

Master limited partnerships are mulling re-incorporation in order to attract institutional investors. Page 3

INTERNATIONAL

Passive international investing seems to be losing its gleam as the best way for pension funds to invest in foreign markets. Page 3

Banks eager to lend foreign securities owned by U.S. pension funds want changes in some of the rules. Page 34

REAL ESTATE

Twelve U.S. pension funds and one endowment plunk down nearly $300 million for property in London. Page 1

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Foreign business survey

Questionnaires for *Pensions & Investments'* annual survey of U.S.-based money managers' foreign business have been sent out. The deadline for inclusion in the survey, to be published July 23, is June 24. If you qualify for inclusion and have not yet received a questionnaire, or have questions about the survey, please contact Christine Philip, directory coordinator, at (312) 649-5217.

Off to the rescue

Turnaround deals lure 4 funds

By Marcia Parker and Margaret Price

Three corporate and one public pension fund are among eight major institutional investors in a $91.5 million partnership that purchased controlling equity interests in two undervalued middle-market companies with correctable problems.

The pension funds of Honeywell Inc., Unisys Corp. and Southern New England Telephone Co. and an unidentified public fund, invested in Recovery Equity Investors LP. The relatively unknown San Mateo, Calif., firm is run by a small group of experienced businessmen and lawyers with experience in turnarounds.

Other institutional investors include an insurance company and a bank holding company, which were not identified. Recovery Equity's first investments are a regional railroad and three specialty paper mills.

And Capstone Partners Inc., a new Dallas-based buy-out boutique that takes mostly equity stakes in industrial companies, has attracted one institutional investor — BT Capital Corp. — as a partner in its first major deal. The buy-out group just bought Tracor Hydro-Services, the environmental services division of Tracor Inc., Austin, Texas.

Capstone will seek other partners, including institutions, to invest on a deal-by-deal basis in industrial companies with a focus on environmental services, the automotive aftermarket and aerospace. BT Capital is the venture capital subsidiary of Bankers Trust New York Corp., which primarily funds BT Capital.

Also, a $40 million investment made by the $18.7 billion Florida State Board of Administration in First Bank System Inc., Minnesota, is that fund's first voyage into a relatively new area for institutional investors — once-troubled banks on the verge of a turnaround.

These investments reflect the growing interest of institutional investors in alternatives to traditional public debt and equity investments.

David White, vice president-capital management for the $5 billion Unisys fund, said Unisys invested $20 million in the Recovery Investors partnership. He looks for an internal rate of return upward of 20%.

It is Unisys' first investment in the ailing company arena, and Mr. White expects to make more. He is looking at other partnerships that invest in distressed companies or their securities.

"I think the opportunities (in troubled companies) will be very numerous. It's a strategic play to get into this area," Mr. White said. "It's a small fund. We wanted to get into the smaller company distressed companies. There are plenty of ways to get into the big companies. . . . That's an overcrowded market today."

Jeffrey Lipkin, general partner of Recovery Equity, said there are plenty of companies in crisis that can be turned around with the help of experienced management and an equity capital infusion. Recovery Equity invests in established manufacturing, finance, service and operating real estate companies with revenues of $25 million to $250 million, developed technologies and a need for equity infusion or credit enhancement of $3 million to $11 million.

The group's first two deals are expected to close later this month. While Mr. Lipkin declined to name the companies, he said the

See **Turnaround** *on page 46*

3 execs make job changes

A pension executive-turned-consultant is returning to the corporate side while two of her counterparts are leaving pension posts.

Judith W. Mares, principal of Mares Financial Consulting, Minneapolis, and former assistant treasurer of General Mills Inc., has been named chief investment officer at American Information Technologies Corp., Chicago.

Meanwhile, John Chenoweth has resigned as executive director and chief investment officer of the $900 million Minneapolis Employees' Retirement Fund, and Alan V. Hall, formerly chief investment officer for the $7 billion Shell International pension fund, London, will be joining First Quadrant Corp., Pasadena, Calif., as a principal.

Ms. Mares succeeds Donald W. Phillips, who left Ameritech to become executive vice president of Equity Financial and Management Co., Chicago.

Ms. Mares, who joins Ameritech June 18, will oversee the company's $14 billion pension and savings funds. She will report to Carl Koch, vice president and treasurer.

She formed her consulting firm in Minneapolis in 1988, after leaving Norwest Bank, Minneapolis, where she served as vice president and managing director of investments.

In announcing his resignation, Mr. Chenoweth said he plans to take the summer off.

See **Moving** *on page 41*

Harvard gets a new captain

Meyer to set anchor for $5 billion fund

By Marlene Givant Star

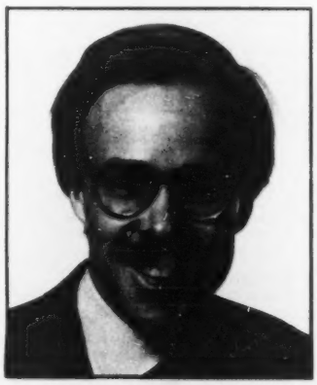
If there's one thing missing at the $5 billion Harvard University endowment, which for years has sailed into uncharted investment seas, it's an anchor.

Jack Meyer, treasurer of New York's Rockefeller Foundation, plans to change that when he takes the helm of Harvard Management Co., the university's investment arm.

The first thing he'll do is create what he calls a policy portfolio — a benchmark of sorts — to support Harvard's spending policy over time without overstepping its risk parameters.

The anchor will allow the fund to confidently continue its course of significant private investments from oil and gas to venture capital.

"If Harvard has a weakness, the weakness may be in the context. I'm not sure the portfolio is ideally suited to the (university's) risk tolerances and spending requirements," said the 45-year-old Mr. Meyer, who assumes his new post Sept. 1.



Jack Meyer want to take a fresh look at Harvard's in-house management of assets.

Mr. Meyer will evaluate each of Harvard's asset classes to determine whether in-house active management has been successful or whether in-house passive or external management would be more suitable.

Mr. Meyer will succeed Walter Cabot, president of Harvard Management since it was formed in 1974, who is retiring. Mr. Cabot will continue to advise the fund on private investments.

A search is under way for Mr. Meyer's successor at the Rockefeller Foundation, and he hopes to have a role in the process.

Mr. Meyer will be in charge of a staff of more than 100 professionals at Harvard, which manages a significant amount in-house.

"There are a number of strategies I would like to try. Beginning Sept. 1, I'll have the resources to do it," Mr. Meyer said.

Many of these will be trading strategies that could not be implemented cost effectively in-house at a smaller fund.

Mr. Meyer also plans to get involved in Harvard's social investing decisions. The fund recently divested of tobacco stocks. Companies doing business in South Africa in which Harvard holds stock subscribe to the Statement of Principles.

"I have no problem with Harvard divesting its tobacco stocks. The cost was probably quite minimal while the social impact could be major. But I could envision divestment strategies that could be very harmful," he said.

Rockefeller didn't divest of South African stocks; instead, it was able to fund organizations that fight apartheid.

Another priority for Mr. Meyer

See **Harvard** *on page 46*

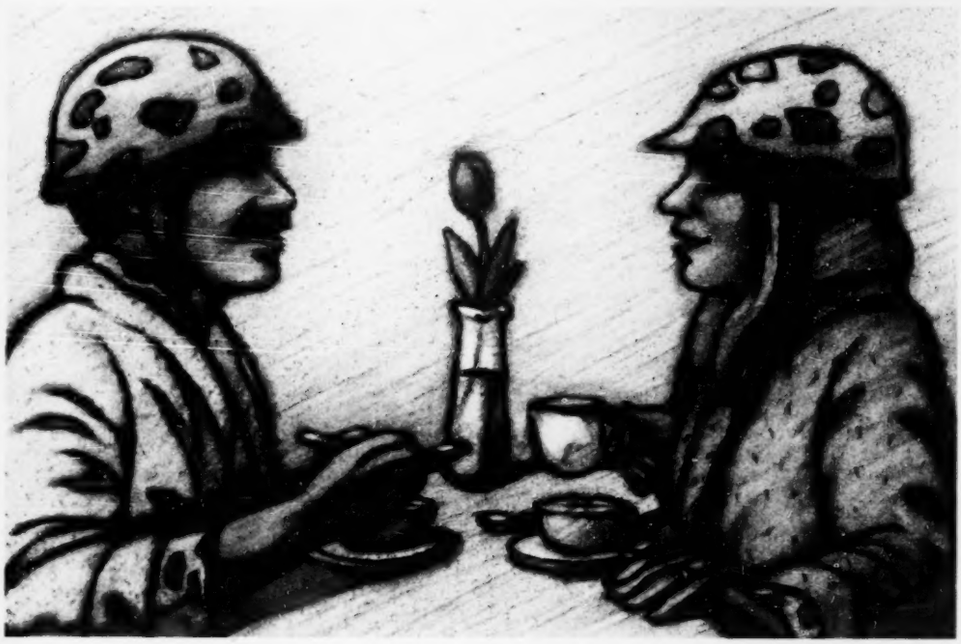


Illustration by Douglas Bowles

PEOPLE

Corporate restructurings a family affair for couple

■ In their five years of marriage, Raymond and Amy Minella have been on opposite sides of more than just the breakfast table.

These days Amy, senior vice president of Deltec Securities, a New York-based high yield bond manager, is heading up the creditor's committee of Southland Corp.'s restructuring.

That deal is underwritten by Merrill Lynch Capital Markets, where Raymond is managing director and co-head of merchant banking.

While Mr. Minella isn't involved in the Southland deal, he worked directly opposite his wife at the bargaining table on the restructuring of Fruehauf Corp., which concluded last fall.

Miraculously, the high yield wars don't seem to have ravaged the Minellas' home life. After all, the two were an item long before the days of junk bonds. Before joining Deltec seven years ago, Amy met Raymond working with him in the corporate finance area at Merrill.

INVESTING

Thrift Board widening its options

■ The Federal Retirement Thrift Investment Board will switch to a broader fixed-income index fund next year.

Currently, assets directed to the board's F Fund are invested in an index fund that tracks the Shearson Lehman Hutton Government/Corporate Bond Index.

But the $5.8 billion thrift plan will shift to a commingled fund that tracks either the Salomon Brothers Broad Investment Grade or Shearson Lehman Hutton Aggregate bond indexes.

Unlike the government/corporate index, the BIG and aggregate indexes include mortgage-backed securities, which will provide participants "the potential for somewhat higher returns and greater diversification," said Francis X. Cavanaugh, executive director.

As of April 30, only $29 million was invested in the bond fund, but that figure could climb sharply if pending legislation expanding participants' ability to invest in stocks or bonds passes Congress. The House of Representatives passed a bill April 24 that would lift many of the investment restrictions.

More than $100 million is invested in the board's stock fund, which will continue to track the Standard & Poor's 500 Stock Index. The bulk of the assets are invested in the internally managed G Fund, which is invested in special Treasury securities.

Both the bond and stock accounts are managed by Wells Fargo Institutional Trust Co., but that three-year contract will expire Dec. 31. The board plans to issue requests for proposals on the stock and bond contracts in early August.

MONEY MANAGERS

Insurer spins off Boylston Capital

■ The New England has spun off another of its money management affiliates, Boylston Capital Advisors, with the new firm specializing in private placement securities, commercial mortgages and portfolio strategy for pension funds and small insurers.

Boylston Capital was a separate division of The New England, managing its $7 billion in private placements, mortgage portfolios and guaranteed investment contracts. The firm will continue to manage The New England's portfolio while marketing its services to other institutional investors.

Ralph Verni, president and chief executive officer of New England Investment Cos. Inc., Boston, said Boylston Capital was spun off so the principals — Frederick K. Zimmerman, president, and Charles A. Morss, Adrian B. Corbiere and John F. Guthrie, executive vice presidents — could have the flexibility to develop the business.

The New England last spun off an affiliate in 1982, creating Copley Real Estate Advisors, which ranks as No. 3 manager of real estate equities for pension funds.

Frederick K. Zimmerman is president of Boylston Capital.

INTERNATIONAL

Hong Kong puts on its best face

■ Hong Kong put on a pretty face for a high-profile, costly advertising campaign and conference in May at the Asia Society's elegant Park Avenue office and a glittering dinner at the posh Waldorf Astoria Hotel.

Whether or not the effort pays off in a rash of proposals from dealmakers and investor-suitors remains to be seen.

High level government officials, bankers and corporate leaders talked up foreign investment to counter reports of a significant outflow of foreign capital and professionals as it gets closer to the day Britain turns over control of the high-flying financial and trade center to China in 1997.

The conference drew bankers, corporate executives and a smattering of institutional investors, many of whom seemed intrigued with investment opportunities there and in the region. Some dealmakers say they are making follow-up calls to pursue possible investments.

But in spite of a herculean effort to downplay any hint of persistent international concerns about the question marks in Hong Kong's future, many expressed reluctance to make big capital commitments until they see whether China adopts a promised laissez faire policy for Hong Kong.

Hong Kong is hoping to see investors flock to its door.

GICs

Putnam creates FASB-proof trust

■ The Putnam Cos. has developed what it considers an appropriate response to the FASB review of book-value accounting of guaranteed investment products.

Its new guaranteed fixed-income product contains neither insurance nor bank contracts. Instead, investments will be in ordinary U.S. government agency securities and bonds.

Putnam packages the securities in individual trust accounts with a guaranteed rate of return and book-value accounting.

Called Putnam Guaranteed Horizon Trusts, the trusts are well-positioned for possible requirements by the Financial Accounting Standards Board that guaranteed products be marked to market, said Sandra Whiston, Putnam vice president.

"We value the securities in the portfolio to market, and plan participants are entitled to the net amount of the fair market value."

Alan. J. Bankart, Putnam managing director and chief investment officer, said individual portfolios are created, allowing the firm to lock in a rate of return to a fixed point in the future and manage the assets as an immunized fund.

In addition, an agreement has been signed between Putnam and Morgan Guaranty Trust Co. for a credit facility, said Ms. Whiston, whereby Morgan "stands behind the designated amount for reimbursement" to the plan sponsor in the event Putnam defaults or lacks funds to provide the guarantee.

REAL ESTATE

Office developers face a Catch 22

■ Office building developers appear to be in a no-win situation with pension funds.

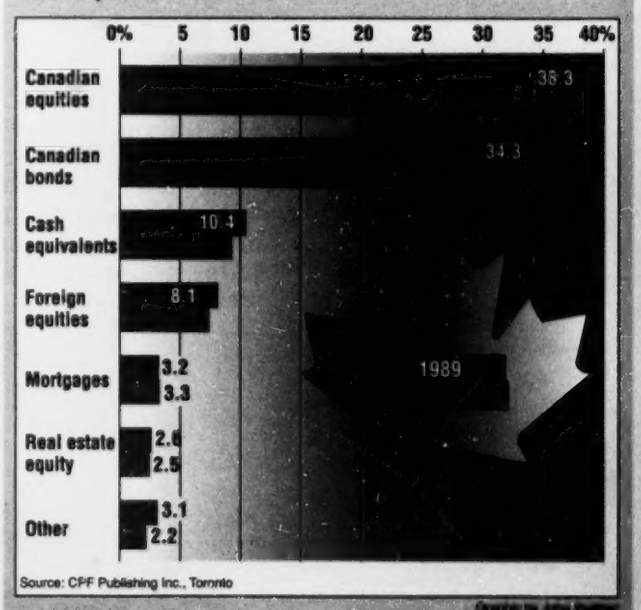
On the one hand, pension funds will be the leading source of direct funding of commercial office buildings in the 1990s, according to nearly 50% of the respondents to a survey of members of the American Society of Real Estate Counselors.

On the other hand, pension funds are becoming more cautious about investing in offices because of declining returns.

Half the respondents also feel the next wave of office development will be in central business districts.

Canadians hold steady

The asset mix of the 500 largest Canadian pension funds, year-end 1989 vs. year-end 1988.



Source: CPF Publishing Inc., Toronto

Fees come under scrutiny

NASD, with a nudge, proposes 12b-1 charge limits

By Margaret Price

At the request of the mutual fund industry, the National Association of Securities Dealers, Washington, is proposing to limit asset-based charges used for sales and distribution of mutual funds.

The move is the result of concerns by the Securities and Exchange Commission and others that such fees can be excessive and/or inadequately disclosed by mutual fund companies.

Currently, 12b-1 charges are the only asset-based charges that pay for a fund's sales and distribution. These fees, begun after the SEC adopted rule 12b-1 in 1980, run as high as 1.25% of a fund's total assets. At year-end 1989, 56% of mutual funds charged 12b-1 fees, according to Lipper Analytical Services, Inc., Summit, N.J. These fees replace or supplement loads for funds sold through brokers and other distributors.

A year ago, the mutual fund industry asked the NASD to design limits on asset-based fees after the SEC proposed its own rules. The industry approached the NASD because that group already sets a maximum fee for front- and back-end loads, totaling 8.5% on the offering price on funds its members sell.

If the NASD's membership approves its proposed amendment to its sales charge rule that includes caps on 12b-1 fees, the amendment could be submitted to the SEC by late summer or early fall, said A. John Taylor, NASD vice president.

According to Mr. Taylor, the SEC, in proposing new rules two years ago, was concerned 12b-1 fees might "exceed the NASD's maximum sales charge rule." Other concerns center on adequate disclosure of the fees and their effect on funds and their shareholders. One issue cited by Kenneth Lehn, the SEC's chief economist, is "whether the fees work to benefit shareholders or if they raise expenses without providing a countervailing benefit."

Individual investors could be at greater risk than institutions, which can use consultants in selecting funds. For example, Joseph Scarella, consultant with Wyatt Asset Services Inc., New York, cited an "unwritten rule" in his firm "always to consider (recommending to clients) no-load funds and funds without 12b-1 fees before using other funds."

Jerry Woodham, treasurer of Washington University, St. Louis, said the $1.3 billion endowment "only invests in mutual funds with no loads and no 12b-1 fees." The endowment has about $100 million in three equity mutual funds — the Acorn Fund, managed by Harris Investment Management Inc., Chicago, and the 20th Century Growth and and 20th Century Select funds, part of Investors Research Corp., Kansas City, Mo.

"We are able to get other non-mutual fund managers that don't impose (such) fees," Mr. Woodham said. To justify paying these fees, "we would have to find a mutual fund that outperformed the market and other managers, and I have not seen that to be the case."

A study on 12b-1 fee costs and benefits by Charles Trzcinka, associate professor of finance at the State University of Buffalo, New York, found the fees have "little redeeming values for institutional investors." For the retail sector, their "only redeeming value is the service they pay for from brokers."

The study said the 12b-1 rule "has increased expenses, lowered net returns and had no effect on growth" of the funds. The study also noted "funds with below-average risk have a higher net return when they adopt a 12b-1 plan than funds of identical risk without a plan. Conversely, funds with above average risk have a lower net return when they adopt a 12b-1 plan."

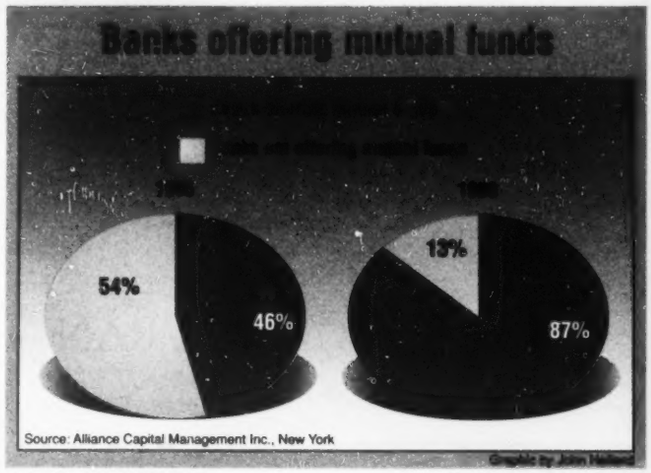
Mr. Trzcinka studied 612 funds while employed at the SEC. In February, he submitted the report to the SEC.

The study's results have elicited various responses. The SEC's Kenneth Lehn said the study "suffered from (undefined) methodological and data problems." He added, however, he "didn't necessarily disagree with its conclusions." He said the SEC was currently undertaking another study, expected shortly, on 12b-1 fees.

Jacob Dreyer, chief economist of the Investment Company Institute, Washington, also criticized the Trzcinka study, in part on how the expense ratios for the funds were calculated. The ICI argued that any load had to be included in total fund expenses.

Mr. Trzcinka said he looked at funds' expenses after the load was paid. Had he factored the load into expenses, he said, "for many funds, 12b-1 fees would have had a more negative effect on performance."

See **Fee scrutiny** *on page 22*



Banks move swiftly to grab piece of pie

By Fred Williams

Banks have become major players in mutual funds, capturing a larger piece of the action as banking becomes more of a fee-based business and less dependent on lending.

Whether initiating internally managed private label funds or marketing outside mutual funds, banks are going to be in the mutual fund business in some form despite restrictions in the Glass-Steagall Act that prohibit banks from underwriting and distributing their own funds.

According to a 1989 study by Alliance Capital Management Inc., New York, use of mutual funds created and run by banks has increased to 34% from 17% in 1987. Of the 39 banks with these proprietary funds in 1989, 23 also sold third-party mutual funds.

The Alliance survey is based on responses from 160 of the largest 300 commercial banks.

"That Glass-Steagall has failed to keep banking and mutual funds separate is indicated by the fact that some 87% of (banks with assets greater than $1 billion) currently make mutual funds available to their clients. Narrowing the universe to the largest 25 banks, fully 23 offer fund shares, including 15 as investment advisers and 17 through discount brokerage units (with nine banks serving both functions)," said John C. Bogle, chairman and chief executive officer of the Vanguard Group of Investment Cos. in a March speech.

Vanguard has no intentions of offering its mutual funds through banks, preferring to retain direct

See **Banks move** *on page 27*

Recordkeeping gets high marks

By Leonard J. Hollie

Corporate executives are demanding lower costs, a variety of choices and consistent performance when choosing mutual funds for their defined contribution plans.

"A company will look for a full-service mutual fund organization that can provide a variety of options and recordkeeping capability," said Mary Ann Johnson, president of Tremont Partners Inc., a New Canaan, Conn.-based consulting firm.

"Recordkeeping receives the most attention," she said, estimating 80% of the decision on which mutual fund company is chosen is based on its recordkeeping ability. "The investment side is sometimes secondary," Ms. Johnson said.

Michael Beasley, senior vice president of Callan Associates Inc., Atlanta, said those companies that can offer both recordkeeping expertise and investment options that can be easily communicated to participants offer a package hard to beat.

"Recordkeeping was a serious issue in deciding which vendor to choose," said William Smith, consultant in the financial and benefits analysis department of E.I. du Pont de Nemours & Co., Wilmington, Del. "The ability to provide accurate and timely information to participants was crucial," he said, as was investment strategy and performance record.

The $5.7 billion defined contribution fund has $260 million invested in seven mutual funds, including the Magellan Fund, managed by Fidelity Management & Research Co., Boston.

Stability and consistency of the fund's manager and demonstrated investor appeal of the fund go into the choice of a mutual fund, Mr. Smith said.

"We are looking for recognizable names that participants are familiar with," said Mr. Smith. "We wouldn't offer funds to our investors that have a narrow investment strategy, or that have an inherent risk. We also try to keep our mutual fund options to a reasonable number that is distinct, so that we can see the difference in the funds," he said.

Ruth Hughes-Guden, director, investment advisory for Rogers, Casey & Associates Inc., Darien, Conn., said her firm offers a "fund of funds," for seven defined contribution plans, packaging several mutual funds with a variety of investment approaches.

"The bottom line is we choose mutual funds that have no load and no 12b-1 fees," said Ms. Hughes, referring to the asset-based fees used to pay for sales and distribution of mutual funds.

"We will use load funds, but only if they waive the charges," she said.

Ms. Johnson said: "Mutual fund complexes are also changing their fee structures and are charging lower fees so there is an increase in the net return to participants."

Many companies, especially those with big defined contribution plans, are looking at the investment side, and how to lower the cost, get better choices and better performance.

Consultants also say they are seeing an increase in the number of mutual funds used in companies' defined contribution plans, with firms choosing a mutual fund to fit a particular need.

Ms. Johnson, for example, said the most popular mutual fund investment is an index fund.

Joseph R. Lawhead, assistant treasurer and benefits administrator for Procter & Gamble Co., Cincinnati, said he chose two fixed-income mutual funds, a bond fund and a money market fund 10 years ago because "they met our objectives of getting both quality and a higher yield."

Terry Endsley, director of banking investments for Navistar International Transportation Corp., Chicago, said Navistar executives chose a mutual fund for its manager.

"The only way we could get access to Mario Gabelli was through a mutual fund," said Mr. Endsley. "We liked his track record and his performance."

Mr. Endsley said Navistar wanted to give participants a

See **Records** *on page 22*

"Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information upon it."
Samuel Johnson
1775

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MÖBIUS GROUP

Banks move

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contact with investors without intermediaries, Mr. Bogle said.

Although Mr. Bogle believes banks will be small frys in the mutual fund business, other mutual fund executives see bank participation growing.

Joseph Grause, senior vice president for institutional banking services at Fidelity Investments, Boston, said the use of mutual funds by banks is on the rise through the use of funds in trust departments and proprietary bank funds.

"Both trends are drawn from the same economic engine. The banking industry is consolidating and, for various reasons, is seeking more fee income through fee-generating business such as mutual funds," he said. Mr. Grause said 15% (or $16.5 billion of the nearly $110 billion) of Fidelity's mutual funds are bank assets, compared with 9% to 10% at least three years ago.

Indeed, banks are an important source of investment assets for some major fund distributors.

Jerry Potts, vice president and head of banking and thrift industry marketing at Massachusetts Financial Services, Boston, said MFS does between $600 million and $700 million each year through banks, representing 17% to 20% of the company's business since 1986.

Mr. Potts predicts banks' share of MFS' business will reach 40% to 50% within four to five years.

MFS funds are offered by banks not as a replacement for common trust funds, but as an addition that enhances bank fees and improves services.

"Mutual funds (offered by banks) service those middle consumers below the trust minimums, and it also teaches banks how to sell their trust department and other bank services," he said.

"Realistically, the banks understand that to be a player, they can't just offer their own funds, just as Merrill Lynch can't offer just its own funds to its customers. They sell a lot of outside funds too," said Mr. Potts.

Several banks recently launched in-house mutual funds to replace common trusts. Bank executives say the change improves service and simplifies the investment process. Common trusts may not be promoted, but funds may; and separate trust funds must be set up for each category of client, whereas assets may be mixed in a mutual fund.

According to Lipper Analytical Services Inc., Summit, N.J., 88 banks offer proprietary or private label mutual funds. Geoff Bobroff, Lipper senior vice president, said most are larger money center and regional banks.

But some money center banks have yet to begin offering proprietary funds. That list includes Chemical Bank and Bank of New York, Mr. Bobroff said.

He said the number of new entrants is declining, "probably because the market is reaching critical mass. It may be hard for some banks to justify it if they can't attract new assets beyond what they can transfer from existing funds."

Yet the Bank of Oklahoma, Tulsa, is establishing six proprietary mutual funds and will use Winsbury Co., Columbus, Ohio, as distributor to comply with provisions of Glass-Steagall.

A unique feature of the Bank of Oklahoma plan is to use an outside investment firm, AMR Investment Services, Fort Worth, Texas, as a partner.

AMR will manage the bank's money market fund, will co-manage, with the bank, the government money market fund and will consult on the management of the bond fund. The remainder will be managed solely by the bank.

Phil Owings, a senior vice president and trust officer at Bank of Oklahoma, said the bank teamed up with AMR because "they ran money in a fashion which didn't conflict with what we do, and they were looking for institutional business and we were looking for a retail outlet."

Mr. Owings said the bank eventually will replace its common trust funds with its new family of proprietary funds called American Plus Funds.

"We will keep the common trusts, which have tax consequences for participants, and as those tax items work their way down, all the money will be shifted to the mutual funds as rapidly as we can do it without adversely affecting our existing trust clients," he said. The bank has $800 million to $900 million in trust assets, and Mr. Owings said he expects about $650 million to $700 million to be converted to the mutual funds fairly rapidly.

James Ryan is president of Trust Advisory Group, Westport, Conn., which specializes in assisting banks in developing private-label funds. He said: "We encourage banks to manage the assets in these funds themselves and capture the investment management fees. . . . Outside funds are not the most efficient route for banks to go."

Dick White, executive vice president of Premier Bank N.A., Baton Rouge, La., said Premier was "one of the first banks to make a complete conversion" from common trust funds to mutual funds doing so last December.

Premier started the Paragon Portfolios group of funds in lieu of bank commingled trust funds on a no-load basis, but retail customers are charged fees.

Mr. White said the bank also offers outside mutual funds because "we recognize that we have gaps in our funds — we don't offer an international fund or a longer term bond fund."

First National Bank of Gainesville (Ga.) recently announced it will use Fidelity's equity and fixed-income mutual funds in its investment program. "By adding mutual funds to our trust program, we are able to increase revenues, ensure quality performance through investment management and devote more time to client relationships and services, " said Richard T. Allison, group vice president, trust services. ■

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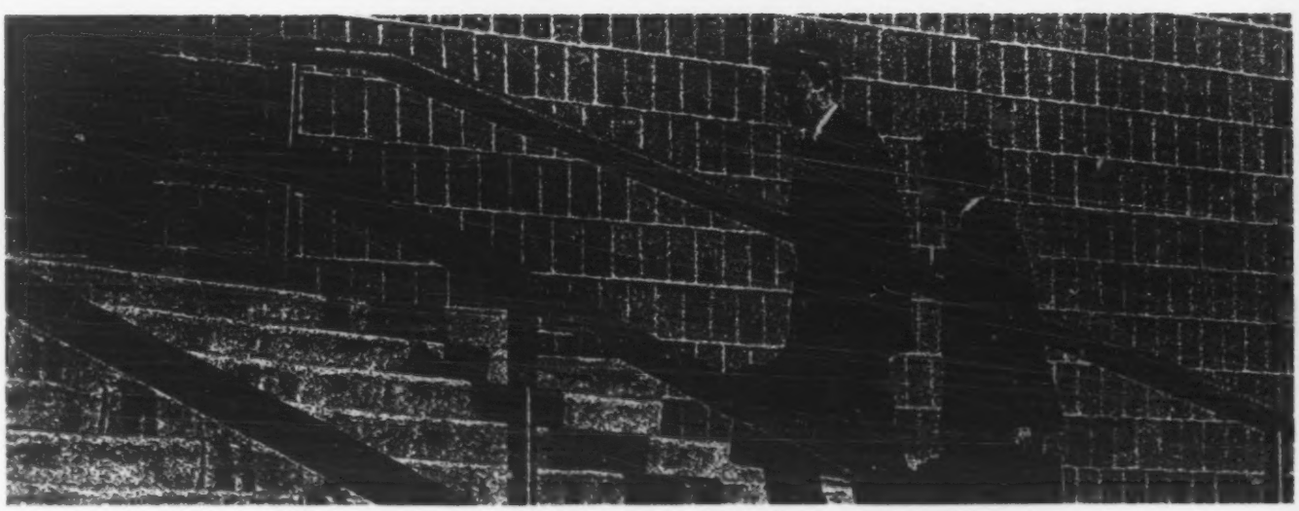

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ECUs

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market-weighted amalgam of 12 currencies, the growing liquidity and the high returns given what they say is a modest level of currency and interest rate risk.

If the first four months of the year are any indication, the young market could top $18 billion by year end.

Corporations increasingly are issuing in ECUs and swapping the proceeds into their home currencies. So far this year, big-name U.S. companies like General Motors Corp., General Electric Co., IBM Corp. and Johnson & Johnson have issued a total of $677 million in the 9-year-old ECU market. Foreign companies, including Toyota Motor Corp., Nippon Telegraph & Telephone and British Gas PLC, also came to market in 1990.

The ECU lets issuers spread liability among a number of currencies, and is stable, trading within a narrow band.

The popularity of the units could intensify if an ECU futures contract begins trading on the French futures exchange later this year, as many participants expect.

Investors also are bullish on ECUs because they think it would be the currency of choice if Europe achieves monetary union after 1992.

ECU issuance tripled to $12 billion in 1989 from $3 billion in 1984. Through May 17, U.S. corporations alone issued $677 million, surpassing their issuance in all other foreign currencies except Swiss francs, said a report by Robert Schwartz, senior financial economist of Merrill Lynch Capital Markets, New York.

In the past month, Julius Baer Investment Management Inc., New York, made its first foray into ECUs, shifting 5% to 10% of its international and global bond accounts managed for pension funds into ECUs and reducing deutsche mark bonds to 6%.

"The German bond market has been suffering the last couple of months. We want exposure in continental Europe, but were overweighting France more than we wanted to. We also didn't want to invest heavily in small markets," said Jay Dirnberger, managing director. "ECU gives you close to a 10% yield for high-quality issues diversified throughout Europe in countries where you otherwise might not invest because of high brokerage costs and logistical problems."

"The ECU market has grown quite a bit in liquidity in recent years. Borrowers used to dictate the terms, but now that the market is more liquid and analyzed more carefully, bonds are priced better," Mr. Dirnberger added.

PCM International, one of the first U.S. institutions to invest in the ECU 18 months ago, is overweighting ECUs vs. deutsche marks.

"The ECU is a stellar performer in a bear market because of the blend of currencies but is doing very well now too. About six very large new issues this year have increased market liquidity," said Susan Tannehill, director-international fixed income of PCM, Newark, N.J. PCM manages $370 million in international bonds for Prudential-Bache Securities Inc.'s mutual funds and $1.1 billion in foreign fixed-income accounts for pension clients.

Ms. Tannehill says the ECU offers relatively good value across all maturities, and has been gaining worldwide investor appeal in the past six months.

"It's a diversified basket — ideal for international portfolios with less currency risk than the individual currencies," she said.

The ECU is not right for all investors. Richard Carr, managing partner of Brinson Partners Inc., Chicago, said the firm prefers buying directly in foreign currency markets rather "than using a cocktail like the ECU." But the firm wouldn't rule out future ECU investment.

In March, General Motors, Detroit, issued $100 million of 11.25% ECU bonds due April 19, 1994. Proceeds of the issue, which was priced at 101.625%, will be used for general corporate purposes and to retire long-term debt maturing next year.

"We tap that market periodically — more so recently. We're just taking advantage of low-cost opportunities in any of the Euromarkets," said Walter Borst, manager-capital markets.

Mr. Borst declined to say whether the ECU issue was swapped, but noted "we do actively manage our liabilities."

Johnson & Johnson, New Brunswick, N.J., also tapped the ECU market earlier this year after issuing ECUs for the first time in January 1989.

"From time to time it is advantageous to float foreign notes and swap them into U.S. dollars, which has the effect of lowering interest costs on borrowings," said Jeff Leebaw, a company spokesman. He added the issue functioned as a substitute for commercial paper that otherwise would have to be issued.

The ECU market is a bright spot in a backdrop of dwindling U.S. corporate issuance of Eurobonds. Many issuers are finding ECUs more attractive than U.S. or Canadian dollars or sterling.

Last year it was the biggest relative gainer in the non-dollar segment of the Eurobond market. U.S. corporations issued more than $2.25 billion of ECU-denominated bonds in 1989 despite a drop in the second half of the year. That total was almost twice the $1.3 billion issued in 1988 and a far cry from 1987's $500 million in new issues by U.S. corporations.

But U.S. issuers sharply reduced their issuance of Eurobonds in general in the first quarter, reflecting reduced demand for credit and a narrowing of differentials between U.S. and foreign interest rates, according to the Merrill Lynch report. In the first three months of the year, U.S. companies issued $3.3 billion of Eurobonds — the smallest volume since the fourth quarter 1987, when the stock market collapse slashed the total to $1.48 billion.

The ECU has no central bank to support it, but a lot of European central banks have been issuing ECUs and keeping the proceeds in their currency reserves to use as they would dollars to manage fluctuations of their home currency. And the ECU is widely regarded as the most politically palatable candidate for a single European currency. ■

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